Hospital Outlier Payment Backgrounder

Section 1886(d)(5)(A) of the Act provides for Medicare payments to participating hospitals in addition to the basic prospective payments for cases incurring extraordinarily high costs.

To qualify for outlier payments, a case must have costs above a fixed-loss cost threshold amount (a dollar amount by which the costs of a case must exceed payments in order to qualify for outliers).

Cost outliers apply to all inpatient facilities including but not limited to:

- Acute Care Facilities
- Inpatient Rehab Facilities
- Inpatient Psychiatric Facilities
- Long-Term Care Facilities
- Veterans Affairs claims for the Electronic Medicare Remittance Advice (e-MRA) project

Billing

To bill an outlier, there must be days of utilization (Medicare benefit days) available to the beneficiary.

Coding

To properly code an outlier claim, the provider must know the Covered, Non-covered, Co-insurance, and Lifetime Reserve (LTR) days available. It is only after all days have been used that benefits are exhausted.

Two pieces of information are needed to determine if an outlier should be coded:

1. Total covered charges
2. Inpatient Prospective Payment System (IPPS) threshold amount

Payment

For a case to qualify for outlier payment, it must have *total* costs above a fixed-loss cost threshold amount (a dollar amount by which the costs of a case must exceed payments in order to qualify for outliers). The outlier fixed-loss threshold for FY 2024, which runs from October 1, 2023, through September 30, 2024, is $42,750. Centers for Medicare and Medicaid Services (CMS) pays 80% of costs exceeding DRG payment.

Key factors that will impact qualification for outlier payment are:

- DRG assignment
- Charges reported on the claim; and
- Your hospital's cost-to-charge ratio

Geography, indirect medical education (IME) factors, and disproportionate share hospital (DSH) factors also impact calculation. Hospitals should determine if a claim should be submitted as an outlier. The Inpatient PPS Web Pricer is available to help estimate payment.

Medicare Administrative Contractors (MACs)

Some of the MACs may also provide guidance regarding outlier claim information and submission instructions on their websites:

- First Coast Service Options (FL, Puerto Rico, US Virgin Islands)
- Novitas Outlier Claim Information and Submission Instructions (AR, CO, DC, DE, LA, MD, MS, NJ, NM, PA, OK, TX)
- Noridian Inpatient PPS Billing for Cost Outlier (AK, AZ, CA, HI, ID, MT, ND, NV, OR, SD, UT, WA, WY, American Samoa, Guam, Northern Mariana Islands)
- Palmetto Inpatient PPS Outlier Billing (AL, GA, NC, SC, VA, TN, WV)
- NGS does not provide specific information on their website but provides the link to The Inpatient PPS Web Pricer on the CMS website (CT, IL, MA, ME, MN, NH, NY, RI, VT, WI)
- WPS provides no supplemental information (IA, IN, KS, MI, MO, NE)
- CGS provides no supplemental information (KY, OH)

Click or scan to access the Inpatient PPS Web Pricer

Click or scan to learn more about MACs

Outlier Payment Calculation Example

The following example simulates the outlier payment for a case at a hospital in the San Francisco, California CBSA, which is a large urban area. The patient was discharged on/after October 1, 2006, and the hospital incurred Medicare approved charges of $150,000. The DRG assigned to the case was 498. The hospital is 100% Federal for capital payment purposes.

Note: This spreadsheet is only an estimate of payment. It is not to be relied upon for exact payment.

Table of Operating Values used in Calculation	
DRG 498 Relative Weight:	2.9896
Labor-related	$3,397.52
Nonlabor-related	$1,476.97
San Francisco CBSA Wage Index	1.5419
Cost of Living Adjustment (COLA)	1
IME Operating Adjustment Factor	0.0744
DSH Operating Adjustment Factor	0.1413
Labor-related portion	0.697
Nonlabor-related portion	0.303
Operating Cost-to-Charge Ratio	0.38

Table of Capital Values Used in Calculation	
DRG 498 Relative Weight:	2.9896
Federal Capital Rate	$427.03
Large Urban Add on	1.03
San Francisco CBSA GAF	1.3452
Cost of Living Adjustment	1
IME Operating Adjustment Factor	0.0243
DSH Operating Adjustment Factor	0.0631
Capital Cost-to-Charge Ratio	0.04

Other Factors	
Billed Covered Charges	$150,000
Fixed Loss Outlier Threshold	$24,485
Marginal Cost Factor	0.8

Step 1: Determine Federal Operating Payment With IME and DSH

Federal Rate for Operating Costs = (DRG Relative Weight x ((Labor-Related Large Urban Standardized Amount x San Francisco CBSA Wage Index) + (Nonlabor-Related National Large Urban Standardized Amount x Cost of Living Adjustment)) x (1 + IME + DSH))

Federal Operating Payment With IME and DSH =	$24,407.58

Step 2: Determine Federal Capital Payment With IME and DSH

Federal Rate for Operating Costs = ((DRG Relative Weight x Federal Capital Rate x Large Urban Add-On x Geographic Cost Adjustment Factor x COLA) x (1 + IME + DSH))

Federal Capital Payment With IME and DSH =	$1,923.47

Step 3: Determine Operating and Capital Costs

Operating Costs = Billed Charges x Operating Cost-to-Charge Ratio

Operating Costs =	$57,000

Capital Costs = Billed Charges x Capital Cost-to-Charge Ratio

Capital Costs =	$6,000

Step 4: Determine Operating and Capital Outlier Threshold

A. Operating CCR to Total CCR = Operating CCR / (Operating CCR + Capital CCR)

Operating CCR to Total CCR =	0.9048

B. Capital CCR to Total CCR = Capital CCR / (Operating CCR + Capital CCR)

Capital CCR to Total CCR =	0.0952

C. Operating Outlier Threshold = ((Fixed Loss Threshold x (Labor-related portion x San Francisco CBSA Wage Index) + Nonlabor-related portion)) x Operating CCR to Total) + Federal Payment With IME and DSH

Operating Outlier Threshold =	$54,929.28

D. Capital Outlier Threshold = (Fixed Loss Threshold x Geographic Adj. Factor x Large Urban Add-On x Capital CCR to Total CCR) + Federal Payment With IME and DSH

Capital Outlier Threshold =	$5,153.16

Step 5: Determine Operating and Capital Outlier Payment Amount

A. Determine if Total Costs are greater than Combined Threshold = (if (operating costs + capital costs) > (operating threshold + Capital threshold))

Determine if Total Costs are greater than Combined Threshold =	**TRUE**, Continue With Next Step

B. Operating Outlier Payment = (Operating Costs - Operating Outlier Threshold) x Marginal Cost Factor

Operating Outlier Payment =	$1,656.58

C. Capital Outlier Payment = (Capital Costs - Capital Outlier Threshold) x Marginal Cost Factor
Note: If Capital Outlier Payment Amount is Negative, we default this amount to 0

Capital Outlier Payment =	$677.47

CBSA, core basic statistical area; CGS, CGS Administrators, LLC;
DRG, diagnosis-related group; NGS, National Government Services, Inc;
WPS, Wisconsin Physicians Service Government Health Administrators.

Click or scan to access the spreadsheet

Spreadsheet can be located in the downloads section at:
https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/outlier

BTG Pharmaceuticals a SERB company